

related to the merger of SBC and Pacific Telesis.

Highlights of the second quarter included growth in key areas:

- **Access Lines:** SBC's subsidiaries added 1.6 million lines over the last 12 months, which is an increase of 4.9 percent, including 276,000 lines added during the second quarter.
- **Caller ID:** Pacific Bell, with an enhanced marketing and sales focus based on merger-related synergies, added 164,000 Caller ID subscribers during the quarter and raised Caller ID residential line penetration to 9.4 percent from 2.6 percent a year ago. Southwestern Bell signed on its 5 millionth residential Caller ID subscriber during the quarter to bring its residential total to more than 5.1 million subscribers and an industry-leading residential penetration rate of 49 percent.
- **Vertical Features:** Through successes in marketing vertical feature packages, both Southwestern Bell and Pacific Bell experienced solid growth in vertical feature penetration during the quarter. Southwestern Bell's feature penetration increased 8.9 percent over the last 12 months to 2.45 features per line, one of the highest levels in the industry. Pacific Bell's penetration grew to 0.9 features per line, a 24.2 percent increase over the prior year quarter.
- **Wireless Subscribers:** SBC's subsidiaries added 226,000 wireless subscribers in the second quarter, which included signing on the 500,000<sup>th</sup> PCS subscriber in California and Nevada. Overall, SBC added 871,000 subscribers over the last 12 months. PCS growth continues to exceed expectations, while traditional cellular growth during the quarter was right in line with desired levels.
- **Data Services:** Revenues for Southwestern Bell and Pacific Bell data services, including Frame Relay, ISDN (Integrated Services Digital Network), DS1 and DS3 services, increased more than 35 percent. In addition, SBC extended its product line in the growing data services market by announcing the launch of ADSL service for more than 200 communities in California.

"We reached a number of key milestones across our businesses this quarter that are helping us maintain the momentum we've been building," Whitacre said. "We're experiencing the benefits of being in great markets with strong potential, offering new products and services our customers want and having people who know how to execute."

## **Wireline Operations**

Revenues at SBC's wireline operations continued to show strong growth. Southwestern Bell Telephone and Pacific Bell quarterly revenues grew 6.4 and 6.3 percent to \$2.8 billion and \$2.3 billion, respectively. Normalized quarterly earnings increased 9.5 percent to \$402 million at Southwestern Bell and 15.5 percent to \$321 million at Pacific Bell.

On a reported basis, Southwestern Bell Telephone and Pacific Bell quarterly revenues grew 9.2 and 12 percent to \$2.8 billion and \$2.3 billion, respectively. Quarterly earnings compare with reported earnings of \$228 million at Southwestern Bell and a \$605 million reported loss at Pacific Bell in the second quarter of last year.

Companywide, access lines increased 4.9 percent in the second quarter over the year-ago quarter.

Southwestern Bell grew access lines to more than 16.1 million, representing a 5.2 percent increase over the last 12 months. Growth was driven by business lines, which increased to 5.4 million, marking a 7.1 percent increase over the prior year and the thirteenth consecutive quarter business line growth has met or exceeded 7 percent.

Pacific Bell increased total access lines to more than 17.7 million, representing a 4.6 percent growth for the last 12 months. This growth was driven by additional residential lines, which increased 14.8 percent over the last 12 months, pushing total penetration to an industry-leading 30.8 percent.

"Growth in the wireline business continues to reflect high customer demand for additional access lines and vertical services, with advanced data services becoming an increasingly important contributor to overall performance," Whitacre said. "We continue to invest in our networks to be able to take advantage of the dynamic growth in the data market."

## **Wireless Operations**

Continuing high demand for PCS services in California and Nevada and growth in traditional cellular markets increased SBC's wireless subscriber revenues 13.9 percent over the same quarter last year to \$891 million.

During the quarter SBC added a net 120,000 PCS customers in California and Nevada, and 106,000 wireless customers in our other domestic markets, increasing the total number of domestic wireless subscribers to 5.8 million.

To continue competing effectively in both its PCS and domestic cellular markets, the company is broadening its PCS distribution channels and offering high-quality digital networks and handsets to its domestic cellular customers. SBC's goal is to migrate 30 percent of its high-volume cellular customer minutes to its digital network in 1998. To date, the company has migrated approximately 16 percent of its cellular minutes.

### **International Operations**

SBC's international investments performed well in the second quarter, with solid contributions from SBC's investments in Mexico's Telmex and in Telkom South Africa. SBC's investment in Cegetel in France continued to grow its wireless subscribers, more than doubling last year's total. Overall, international wireless businesses in which SBC has invested increased subscribers almost 115 percent over last year, raising total wireless subscribers to 5.9 million. These international investments provide opportunities for continued growth.

In April, *diAx mobile*, a Swiss company in which SBC holds an interest, was awarded a new GSM 900 MHz wireless license by the Swiss Government. *diAx mobile* plans to launch wireless service in Switzerland within the next six months, strengthening the company's presence in Europe.

"We're increasingly looking to build on the successes of our strategic international investments," Whitacre commented. "More importantly, they will become key components in our evolving national-local-international strategy, which will carry SBC's momentum well into the future."

### **Other Events**

In May, SBC announced an industry-transforming merger with Ameritech to create a new type of telecommunications company with a "national-local" focus combined with national and international service capabilities. The company expects to have the assets, scope and strategies to compete against incumbent local telecommunications companies, competitive local exchange carriers, long distance companies and global competitors.

SBC expects that the Ameritech merger will enable the new SBC to accelerate and expand telecommunications competition by entering 30 U.S. markets outside its traditional 13-state local region so that the combined company will serve customers in all the top 50 markets in the nation. Regulatory approval of the merger is expected to be completed

in 12 to 18 months.

*SBC Communications Inc. is a global leader in the telecommunications industry, with more than 34 million access lines and over 5.8 million wireless customers across the United States, as well as investments in telecommunications businesses in 10 countries. Under the Southwestern Bell, Pacific Bell, Nevada Bell and Cellular One brands, SBC, through its subsidiaries, offers a wide range of innovative services, including local and long-distance telephone service, wireless communications, paging, Internet access, and messaging, as well as telecommunications equipment, and directory advertising and publishing. SBC (www.sbc.com) has more than 119,000 employees and reported 1997 revenues of nearly \$25 billion. SBC's equity market value of \$74 billion as of June 30, 1998, ranks it as one of the largest telecommunications companies in the world.*

**SBC Communications Inc.**  
**Financial Summary and Comparisons**  
(dollars in millions, except per share amounts)  
(unaudited)

**-- Second Quarter Results --**

<b>Before 1997 Special Charges</b>	<b>1998</b>	<b>1997</b>	<b>Change</b>
Operating revenues	\$6,591	\$6,109	7.9%
Operating expenses	\$4,882	\$4,649	5.0%
Earnings	\$966	\$808	19.6%
Earnings per diluted share	\$0.52	\$0.44	18.2%
Special Charges	--	\$1,595	--
<b>As Reported</b>			
Operating revenues	\$6,591	\$5,921	11.3%
Operating expenses	\$4,882	\$6,854	-28.8%
Earnings (loss)	\$966	\$(787)	--
Earnings (loss) per diluted share	\$0.52	\$(0.43)	--
Weighted average common shares outstanding (in millions)	1,839	1,826	0.7%
Weighted average common	1,864	1,830	1.4%

Weighted average common  
shares outstanding with  
dilution  
(in millions)

Note: The 1997 information excludes the costs related to strategic initiatives resulting from the merger integration process with Pacific Telesis Group and the impact of several second quarter 1997 regulatory rulings.

**SBC Communications Inc.**  
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**(dollars in millions, except per share amounts)**  
**(unaudited)**

**-- Six Months Results --**

<b>Before 1997 Special Charges</b>	<b>1998</b>	<b>1997</b>	<b>Change</b>
Operating revenues	\$13,015	\$12,082	7.7%
Operating expenses	\$9,647	\$9,188	5.0%
Earnings	\$1,878	\$1,575	19.2%
Earnings per diluted share	\$1.01	\$0.86	17.4%
Special Charges	--	\$1,505	--
<b>As Reported</b>			
Operating revenues	\$13,015	\$11,894	9.4%
Operating expenses	\$9,647	\$11,241	-14.2%
Earnings	\$1,878	\$70	--
Earnings per diluted share	\$1.01	\$0.04	--
Weighted average common shares outstanding (in millions)	1,839	1,825	0.8%
Weighted average common shares outstanding with dilution (in millions)	1,864	1,839	1.4%

Note: The 1997 information excludes the costs related to strategic initiatives resulting from the merger integration process with Pacific Telesis Group, the impact of several second quarter 1997 regulatory rulings, and the first quarter 1997 settlement gain at Pacific Telesis Group associated with lump sum pension payments that exceeded the projected service and interest costs for 1996.



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July 20, 1998

**GTE Announces Strong Financial Results.****Generating Double-Digit Consolidated Revenue Growth****and 11% Core EPS Growth in Second Quarter**

STAMFORD, Conn. - GTE Corp. today announced its second quarter 1998 financial results, reporting 10 percent consolidated revenue growth, and 11 percent earnings per share (EPS) growth from core operations. This is the 12th consecutive quarter of double-digit core EPS growth and the fourth consecutive quarter of double-digit consolidated revenue growth.

During the quarter, consolidated revenues and sales increased to \$6.28 billion, compared to \$5.69 billion in the second quarter of 1997. Earnings per share from core operations increased during the quarter to 81 cents on net income of \$783 million, as compared to 73 cents per share, or \$696 million, reported for the same period last year. Including the effects of the previously announced data initiatives, consolidated EPS of 70 cents remained constant compared to the second quarter of last year, when GTE's data initiatives were launched. The 11 cents per share dilutive impact of the data initiatives this quarter compares to 3 cents in the year-ago quarter.

GTE Chairman and CEO Charles R. Lee said, "Overall, we are very pleased with our second-quarter results. The key for GTE is continued profitable growth. We have embarked on an exciting strategy to accelerate our growth by investing in opportunities such as data and the creation of a new national sales, service and marketing business (CLEC). For example, we have announced one of the industry's largest deployments of high-speed ADSL Internet-access technology. ADSL operates over our existing high-quality network and enables our customers to simultaneously obtain telephone and Internet access on one line at speeds up to 25 times faster than the fastest dial-up modem. These actions, coupled with our strong core operations, enhance our competitive position."

**Consolidated Results**

GTE's consolidated revenues grew \$585 million or 10 percent to \$6.28 billion in the quarter, as compared to an increase of \$399 million or 8 percent in the second quarter of 1997. Major contributors to this quarter's revenue growth include:

- Domestic access line growth of 1.6 million or 8 percent including 5 percent growth in switched lines;
- Domestic access minutes of use growth of 2.4 billion or 13 percent;



- Revenue growth of \$115 million or 30 percent from enhanced services such as CentraNet®, vertical services, voice mail and CyberPOP;
- Long-distance revenue growth of \$58 million or 83 percent;
- Data revenues of \$191 million in the current quarter vs. \$11 million in the year-ago quarter in which the data initiatives were launched;
- Additional domestic customer activity:

	Increase	Total
	over last 12 months	as of 6/30/98
Long Distance	994,000	2,244,000
Dial-up Internet access (revenue generating)	163,000	311,000
Wireless	480,000	4,631,000
Video and Other Services	106,000	142,000

- Revenue growth from consolidated international subsidiaries of 13 percent, including wireless customer growth of 26 percent.

These volume improvements, coupled with growth from integration and consulting services as well as equipment sales, more than offset the expected continuing revenue erosion in the local toll calling markets (intraLATA) due to competition and responsive price reductions GTE has implemented in those markets.

Core operating income in the second quarter was \$152 million higher than the year-ago quarter. Even as GTE continued to make critical investments targeted at high-growth segments of the markets, core operating income, which excludes the data initiatives, reached \$1.59 billion in the second quarter, resulting in 11 percent growth compared to \$1.44 billion or a 7 percent increase in the year-ago quarter. The current quarter increase was primarily the result of core revenue growth from both domestic and international operations. Partially offsetting these increases were continuing investments, such as the cost of our new CLEC and customer-acquisition and start-up costs in the long-distance and digital PCS wireless markets. Without the costs associated with these investments, core operating income growth would have exceeded 15 percent.

Mr. Lee said, "GTE is one of the best-positioned companies in our industry today, especially as competition intensifies and customers seek bundled telecommunication products and

services all on one bill. We are capitalizing on our inherent strengths, including a national footprint and one of the industry's broadest sets of service offerings. The suburban and rural composition of many of our markets continues to fuel GTE's industry-leading growth in access lines and minutes of use. These markets also attract less competition due to lower density of customers per square mile, which reduces the cream-skimming opportunities for competitors. Since the Telecommunications Act was passed in February 1996, GTE has lost only 50,000 lines to resale by other companies."

### **Domestic Operations**

Revenues from domestic network services, including both GTE's wireline and wireless operations, increased \$132 million over the year-ago quarter to \$3.78 billion. Contributing to wireline growth was a 9 percent increase in business lines and a 9 percent increase in second lines. In addition to the 30 percent increase in new and enhanced services, wireline revenue from start-up investments added \$83 million with the long distance business generating growth of 83 percent or an increase of \$58 million and the video service offering adding \$7 million over the year-ago quarter.

Domestic wireless service revenues were \$671 million, an increase of \$17 million or 3 percent from the year-ago quarter. The impact of the 12 percent increase in subscribers in the wireless business was partially offset by targeted responses to competitive offerings in several markets, resulting in a reduction in revenues per subscriber per month of 8 percent from the second quarter of 1997. In an effort to counteract the impact of these revenue reductions, cost reduction initiatives were implemented. These actions improved operating cash flow margins from 36 percent in the year-ago quarter to 39 percent this quarter while positioning the business to compete at lower levels of revenues per customer.

Data initiatives generated revenues of \$191 million, contributing to the overall growth of GTE's domestic results. Important milestones included the number of dial-up customers, including promotional users, approaching the 600,000 mark, as well as significant expansion of GTE's new national, fiber-optic network. GTE is right on schedule with deployment of its new state-of-the-art national fiber-optic network, having activated more than 5,500 miles of fiber, over one-third of the total network.

### **International Growth**

Consolidated international operations achieved revenue growth of \$93 million or 13 percent over the year-ago quarter, contributing \$793 million for the second quarter of 1998. This growth was generated by local price increases, wireless customer growth of 26 percent and access line growth of 4 percent. The international net income growth in the second quarter was \$109 million, 23 percent higher than the year-ago quarter, reflecting strong volume growth including significant customer expansion in the Canadian and Latin America operations. Wireless customers from unconsolidated investments more than doubled over the last 12 months, providing a solid base for prospective results.

### **About GTE**

With 1997 revenues of more than \$23 billion, GTE is one of the world's largest telecommunications companies and a leading provider of integrated telecommunications services. In the United States, GTE provides local service in 28 states and wireless service in 17 states; nationwide long-distance service and internetworking services ranging from dial-up Internet access for residential and small business consumers to Web-based applications for Fortune 500 companies; as well as video service in selected markets.

Outside the United States, the company serves over 8 million telecommunications customers. In addition, GTE is also a leader in government and defense communications systems and equipment, directories and telecommunications-based information services, and aircraft-passenger telecommunications.

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